How profit equalizes across capitalist industries

Nick Beams
29 May 1999

A note to our readers: The question and reply below follow an earlier exchange on the source of capitalist profit. See “How is value determined,” 11 May 1999 [http://www.wsws.org/articles/1999/may1999/sr-m11.shtml]

To Nick Beams,

Thank you for your reply of 5/5/99.I don't know about the veracity of Marx's version of surplus value re your generous explanation. Here, I'm wondering about the fourth paragraph from the end, where you write:

“When the issue is examined at the level of the capitalist firm, the real situation is turned upside down. Every capitalist knows, if he knows anything, that the way to increase profits is to cut costs, and the way to cut costs is to reduce labour. Consequently, it appears to the capitalist and his mouthpiece, the professional economists, that there are a myriad of factors which determine profits.”

Your 2nd sentence seems to be contradicted by your 3rd sentence. The "consequently" bit doesn't seem to actually follow on from the previous statement: "only one way" vs. "a myriad of factors." In fact the one negates the other.

It bothers me that this whole business is so abstract that a high degree of intelligence and education are needed to understand the theory from which all else springs. It is like priests explaining the sacraments.

Regards,

SR

Dear SR,

Regarding the paragraph which you query, let me elaborate on the point I was seeking to explain.

In Volume I of *Capital* Marx shows that the origin of surplus value is the difference between the value of labour power (received by the worker in the form of wages) and the value created by the worker in the course of a working day. At this point Marx has assumed that the various sections of capital engaged in the process of production employ machinery and raw materials (constant capital) and labour power (variable capital) in the same proportions.

In Volume III of *Capital*, having revealed the origins of surplus value, he deals with the problem over which Ricardo had stumbled. That is, if the value of commodities is determined by the amount of labour they embody, and labour is the source of surplus value, then how is it that the rate of profit is the same across all sections of industry, irrespective of the proportions in which they employ constant and variable capital?

It would seem that those industries which employed a higher proportion of labour (variable capital) in relation to raw materials and machinery (constant capital) would enjoy a higher rate of profit than those in which the ratio is lower. Yet, it is a well-established fact that profit rates across all sections of industry, irrespective of the proportions in which they employ constant and variable capital, tend to a uniform rate. Therefore, it seems, that if we assume that commodities sell at their value, then rates of profit must be different in different industries, and there can be no uniform or average rate of profit. On the other hand, it seems, if there is an average rate of profit, then the value of commodities is not determined by the labour embodied in them and there is no basis for the labour theory of value.

A simple numerical example will illustrate the problem. Consider two sections of capital, each of $100.

Suppose that capital I is divided in the following proportions: $20 is laid out on raw materials and machinery and $80 on labour power. Suppose that four workers are employed and that $5 is equivalent to one hour of labour time. Suppose that the working day is eight hours.

At the end of the day, the raw materials and machinery will have been used up and will have transferred their value to the commodities produced. In addition, these commodities will embody 32 hours of additional labour—four workers each working an eight-hour day. The monetary equivalent of each hour of labour time is $5, so the monetary equivalent of the labour added in the process of production is $160.

The total value of the commodities produced will be $180 (the sum of $20, the value passed on by the raw materials and machinery, plus $160, the value added in the labour process).

Now capital II invested in another industry, where $80 is laid out in machinery and raw materials and $20 in wages. That is, only one worker is employed for eight hours.

In this case the value of the commodities produced will be $120, consisting of the $80 in value passed on by the machinery and raw materials and the $40 added by the worker employed for an eight-hour day.

Now consider the rate of profit in each industry. The rate of profit is calculated on the total capital employed. In industry I the capitalist began will $100 and at the end of the production process has $160. The profit is $60 and the rate of profit 60 percent.

However in industry 2, where the capitalist also began with

$100, 2 the rate of profit is only 20 percent.

Thus we have arrived at a contradictory result. If we assume that commodities in both industries sell at their value, we find that the rate of profit in each industry will be different. Either commodities sell at their value, in which case profit rates cannot be equal. Or if profit rates are equal, commodities do not sell their values, and the foundation of the theory collapses.

In Volume III of *Capital* Marx shows that each commodity will, in fact, not sell at its value, but rather at its "production price", such that each section of capital will receive profit at the average rate. This average rate is determined by the ratio of the total surplus value to the total capital employed in society to extract it. In other words, while value relations do not determine the price of individual commodities directly, they do so indirectly.

Marx's analysis shows that each section of capital does not appropriate the surplus value which it, individually, has extracted. Rather the different sections of capital divide up the total surplus value produced in society, according to their share of total capital.

This process takes place in the following way: if an industry is receiving a profit higher than the average rate, capital will tend to move into that industry increasing production and forcing down prices until they reach the production price—that price which will return the average rate of profit. Correspondingly, capital will move out of industries where profit rates are below the average, decreasing supply and increasing prices until they reach the production price. In this way the law of value regulates the movement of capital, which in turn regulates the distribution of social labour.

"So far as profits are concerned," Marx writes, "the various capitalists are just so many stockholders in a stock company in which the shares of profit are uniformly divided per 100, so that profits differ in the case of individual capitalists in accordance with the amount of capital invested by each in the aggregate enterprise, i.e., according to his investment in social production as a whole, according to the number of his shares" (Marx, *Capital*, Volume III, p. 156).

The capitalists divide up the surplus value they have extracted in accordance with the proportion of the total capital (constant and variable) they have advanced.

But this "sharing out" does not take place smoothly, or according to a plan. It is effected through the struggle in the market. Here all sorts of factors come into play.

If a particular capitalist is able to devise a more efficient method of production (the reduction of costs through the elimination of labour) he will be able to enjoy a higher rate of profit than the average. Such a capitalist might well conclude on the basis of his own experience that labour has little to do with the creation of value and that it is just one factor among many. Another may obtain an advantage on the market through a "favourable review", enabling him to sell his product at a higher level than the production price. Another may enjoy some "good luck" enabling him to receive a higher than average profit and so on. Little wonder, then, that all sorts of everyday experiences, embodied in the "wisdom" of common sense, can be brought forward to refute the law of value. In fact, as Marx shows, the very social mechanisms through which it operates conceal its workings.

The basic point is this: because the formation of production prices takes place socially, behind the back, so to speak, of the individual capitalist, the origin of value and of the surplus value which is being divided up in the struggle on the market is obscured, both from the capitalist and the professional economist who gives his observations and prejudices a "theoretical" form.

As Marx explains: "At a given degree of exploitation, the mass of surplus value produced in a particular sphere of production is then more important for the aggregate average profit of social capital, and thus for the capitalist class in general, than for the individual capitalist in any specific branch of production. It is of importance to the latter only in so far as the quantity of surplus value produced in his branch helps to regulate the average profit. But this is a process which occurs behind his back, one he does not see, nor understand, and which indeed does not interest him" (Marx *Capital*, Volume III. p. 163).

The confusion of the theorists, he continues, "best illustrates the utter incapacity of the practical capitalist, blinded by competition as he is, and incapable of penetrating its phenomena, to recognize the inner essence and structure of this process behind its outer appearance."

This brings me to the last point: that the whole business is so difficult that we should dismiss it as we would the deliberations of priests interpreting sacred texts.

The difficulties arise from the complexities of capitalist society itself. In the processes we have just been discussing Marx explains that they completely conceal "the true nature and origin of profit not only from the capitalist, who has a special interest in deceiving himself on this score, but also from the labourer."

A scientific analysis is therefore required and this does, yes, present difficulties. But the impetus for overcoming them arises from capitalist society itself. The inherent drive of capital for the accumulation of surplus value on a global scale and the domination of all aspects of society by the capitalist market—the social mechanism through which this struggle is waged—now threaten the whole of humanity with wars and social devastation. What greater stimulus could there be to surmounting the difficulties in acquiring the scientific knowledge required to enable the international working class to acquire the program necessary to reconstruct society on new foundations? As Abraham Lincoln once put it: the occasion is piled high with difficulties, so we must rise to the occasion.

Yours fraternally,
Nick Beams